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RECORD YEAR FOR MORTGAGE LENDING

NINETEEN fifty-four, it's growing increasingly clear, will go down in economic annals as the second-best year in history, junior only to record-smashing 1953. After 6 months of mild recession, stemming in part from a liquidation of inventories in the hard goods lines, in part from a cutback in Government spending after the Korean War, industrial activity leveled off this summer. With the coming of fall it is showing unmistakable signs of improvement. The bellwether steel operating rate, for example, is creeping up from the cellar, and scrap prices, for both spot and future delivery, are advancing. Contrariwise, new claims for unemployment compensation lately have been declining rapidly, and commercial failures are well below their earlier levels.

In short, while there may be a touch of frost in the air these days, optimism in business circles is glowing bright. Nowhere is this more evident than in the field of mortgage lending, which, based on results to date, won't have to settle for second-best. It now seems as certain as anything can be that 1954 will set a new high in mortgage recordings.

In the first 6 months of this year, according to the Home Loan Bank Board, nonfarm mortgages of $20,000 or less totaled slightly more than $10.1 billion, or 6% above the $9.6 billion reported in the comparable 1953 period, which at the time was itself a record. Virtually all mortgagees, with the exception of individuals and insurance companies (together accounting for roughly 21% of all mortgage recordings), enjoyed sizable gains in activity. Savings and loan associations, as usual, headed the list, but the biggest year-to-year rise - 21% - was scored by the "Miscellaneous" category, which includes, among others, real estate and mortgage companies.

Equally important, the spread in favor of 1954 continues to widen. In February, for example, the year-to-year increase in recordings ran to just over 2%. By May it had risen to 6%, and in the following month it doubled, to 12%. Barring the most unexpected sort of slump in housing and home finance in the next few months, this impressive lead isn't apt to vanish by December 31. The likelihood that 1954 will see a new peak in recordings is now conceded by some officials who were slightly more conservative in their appraisals earlier. For example, Walter W. McAllister, head of the Home Loan Bank Board, told a Stanford University Business Conference some weeks ago that there would be a demand for $21 billion in mortgage credit in 1954, consisting of $8 billion for acquiring new homes and $13 billion for buying existing properties and refinancing present mortgages. That figure would be comfortably above the $20 billion of last year and, of course, an all-time high.

Meanwhile, lenders have had their work cut out for them in another sphere - keeping up with the regulations being issued by the VA and FHA under the Housing Act of 1954, and trying to gauge their probable effect on the market. One of the first consequences of the new legislation, it appears, has been an upsurge in demand for existing dwellings, which may now be financed on considerably easier terms. A $10,000 home today, for example, may be bought for $1,150 down, and the maximum mortgage, $8,850, may be paid off in 30 years, at an estimated $48.47 per month.

These terms contrast strikingly with the previous legislation, which required a down payment of $2,000, a 20-year mortgage and monthly carrying charges of around $54. On more expensive houses, the difference in monthly payments is even more significant. On a $15,000 unit, for example, the latter now amount to only $69, compared with $81 previously, and on a $16,000 home, $73 vs. $86.

Small wonder, then, that home buyers have responded swiftly. In August, FHA Commissioner Norman P. Mason disclosed the other day, approximately 53,800 insurance applications were received by FHA field offices, making it the biggest August in the agency's history. What's more, applications for insurance on existing homes, at 21,700, represented the highest volume for any month on record. While new homes still have an edge over older dwellings under the Housing Act of 1954, the difference has been narrowed substantially, and the likelihood is that more mortgage money will be channeled in the latter direction in the future.

By the same token, prices of older dwellings, which have been somewhat weaker than their newer counterparts, probably will firm up. Whether all this will lead to a new round of inflation in the housing market, as knowledgeable observers such as Morton Bodfish, chairman of Chicago's First Federal Savings & Loan Association, seem to fear, remains to be seen, but there's no doubt whatever that more fuel has been thrown on the fire.

Another probable effect of the new housing legislation will be to cause some shift in financing from the VA to the FHA. To date, it's true, there isn't much indication that such a development is in prospect. VA home loan applications last month rose to nearly 60,000, sharply higher than the 45,000 in July and nearly twice the number reported in August 1953. Appraisal requests, at better than 96,000, also topped July's 87,000, but some builders in the East, who feel the new FHA provisions meet the needs of the market, are planning to drop dual filing with the VA. As one lender commented, the new attitude is "Why bother with an appraisal panel and all the other VA red tape when you can do just as well with FHA loans?" A slight weakening in the secondary market for VA mortgages, incidentally, has been noted in the South and West by some lenders.

While the liberalized features of the new law have come in for considerable comment, perhaps too little attention has been paid to some of its more restrictive provisions. Yet in the case of multifamily housing in particular, there are valid grounds for thinking that the stimulating effects of easier terms may be offset, or perhaps more than offset, by the tighter controls imposed on both mortgagor and mortgagee. Let's look closely at the revised regulations governing Section 207, which were issued last month by FHA.

On the one hand, terms appear to have been relaxed in a number of major respects. For example, the old mortgage limit of $10,000 per family unit has been discarded. Instead, FHA now will insure rental housing projects up to 80% of value or $2,000 a room($7,200 a unit where there are fewer than four rooms). Even these terms may be relaxed further under certain conditions. Buildings with elevators, to cite one case, qualify for mortgage limits of as much as $2,400 a room (or $7,500 for less-than-four-room units). In so-called urban renewal areas, the maximum mortgage may cover 90% of value, up to $2,250 a room, or $8,100 for under four rooms. Other exceptions calling for more liberal mortgage insurance have been made for high-cost areas, for housing for people displaced by slum clearance (the famous Section 221) and cooperatives.

Against all this, however, must be weighed the effects of the new restrictions written into the regulations, owing in part to the recent disclosures of "windfall" profits under the old Section 608 program. For one thing, FHA has put additional responsibility on lenders to see that the mortgaged property is kept in good repair. Lenders now are charged with making an inspection of "the general physical condition of the mortgaged property" every calendar year, and furnishing both the mortgagor and the FHA Commissioner with a copy of the inspection report. What's more, it's up to the lender to see that all necessary repairs are made. Otherwise, say the FHA regulations sternly: "In the event claim for debentures is filed, the Commissioner may reduce the amount of debentures to the extent of any loss sustained as a result of failure to comply with this section."

But this is a minor hurdle compared to the new provisions designed to prevent future project-owners from "mortgaging out." Before a Section 207 lien will be approved for insurance, the mortgagor, mortgagee and FHA Commissioner must enter into an agreement designed to recover any surplus of mortgage proceeds over actual cost. Among other things, this agreement sets forth the kind of payment that may be made by the project-owner to the builder (a lump sum, if the officers, directors and stockholders of the former have no interest in the latter; otherwise, cost plus a fixed fee, which may not exceed an upset price). It also calls upon the borrower to submit a "certificate of actual cost," which is described in some of the most astonishing language ever found in official Government regulations. This certificate, declares FHA, "shall indicate the amount actually paid under the construction contract after deduction of any kickbacks, rebates, trade discounts or similar payments" to the mortgagor corporation, its officers, directors or stockholders.

To the actual cost, as so determined, will be added the fee charged by the builder (the latter, incidentally, also must file a certificate indicating all actual costs paid for labor, materials and subcontract work) and the Commissioner's estimate of the fair market value of any land owned by the mortgagor and used in the project. In the end, if the principal obligation of the mortgage exceeds the proper statutory percentage of this total amount, the mortgage must be reduced accordingly, before final approval of FHA insurance will be granted.

These regulations were published little more than a month ago, and it's still too soon to say with assurance what effect they will have. However, back in July, be-

fore the rules were spelled out, the Mortgage Bankers Association voiced grave concern. "It is widely believed," said MBA, "that few builders, particularly in the light of the present FHA investigation, will risk the vulnerability to attack that is inherent in this provision." After a careful reading of the new provisions, John C. Williamson, Secretary-Counsel of the National Association of Real Estate Boards, concurred in this view. "Cost certification, anti-mortgaging out and other protective devices," said he in part, "will surely cause lenders and builders to hesitate using this FHA program."

The fact is that even before the new rules were promulgated, the building of projects under FHA insurance had been declining sharply. Peak year for FHA multifamily housing was 1950, when the agency insured nearly 155,000 units. This figure fell off by more than half in the following year, and in 1953 FHA insured only 30,701 multifamily dwelling units. Moreover, the drop, if anything, has picked up speed since the turn of the year. In the 5 months ended May 31, exactly 9,661 project units were insured, or 20% below the 1953 level. In the same period, commitments were issued for only 12,575 such units, down 36% from the 19,669 of the previous year. Contrary to homebuilding in general, then, which is extremely vigorous at the moment, rental and cooperative housing seems to be on the skids, and the new law can only accelerate the slide.

One other aspect of the new housing legislation seems especially worthy of comment - the prospective rechartering of the Federal National Mortgage Association. True, the imminence of this event, which is scheduled to take place on October 31, has caused no great excitement in either lending or building circles, and there is general agreement that under existing money market conditions the agency's role is likely to be very limited, but it's also true that the cornerstone of a true secondary mortgage market, which will one day be owned and operated by those taking an active part in housing and home financing, has at long last been laid down.

Just how soon the reconstituted FNMA will begin operations is a matter of conjecture. J. Stanley Baughman, its president, is at the moment doubling in brass as Acting Deputy FHA Commissioner, and the new regulations governing its operations have not yet been issued. However, the agency is understood to be picking up some new personnel and holding conversations with the Treasury Department concerning the prospective sale of FNMA debentures. Under the Housing Act of 1954 Fannie May is also charged with disposing of its predecessor's huge portfolio of home loans (nearly $2.4 billion as of July 31) and one way to go about this is to sell fixed-income securities, secured by the mortgages, in the open market. The RFC, it will be recalled, successfully employed a similar device to turn its holdings of business loans into cash some months ago. While not guaranteed by the U. S., such securities, if priced right, would in all likelihood find ready acceptance among investors.

Robert M. Bleiberg